



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Higher Education
March 19, 2015 at 2:00 pm Room 309

by
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University of Hawai'i

SB 160 SD2 – RELATING TO UNIVERSITY OF HAWAII NON-GENERAL FUNDS

Chair Choy, Vice Chair Ichiyama, and members of the Higher Education committee:

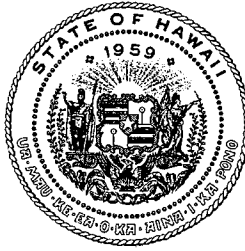
Thank you for this opportunity to testify. The University of Hawai'i (UH) **SUPPORTS** SB160 SD2, Relating to University of Hawaii Non-General Funds.

The bill does several things:

- Establishes the University of Hawaii Quasi-Endowment Trust Fund;
- Re-establishes the following funds as revolving funds instead of special funds:
 - Hawai'i Educator Loan Program Special Fund
 - Community Colleges Special Fund
- Repeals the following funds:
 - University of Hawai'i Alumni Special Fund;
 - Animal Research Farm, Waiale'e, O'ahu Special Fund;
 - Career and Technical Training Projects Revolving Fund;
 - Senator Hiram K. Fong Scholarship Endowment Trust Fund; and
 - Senator Oren E. Long Scholarship Endowment Trust Fund;
- Transfers any unencumbered funds to an appropriate destination fund.

These funds were identified in Auditor's Report No. 14-18, and UH is fully supportive of every action contemplated in this bill, as already stated in its response included in that Report.

Thank you for your time and consideration.



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON SENATE BILL NO. 160, SENATE DRAFT 2,
RELATING TO UNIVERSITY OF HAWAII NON-GENERAL FUNDS**

**House Committee on Higher Education
March 19, 2015**

Chair Choy and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in support of Senate Bill No. 160, Senate Draft 2 (SB 160, SD 2), which would repeal and reclassify a number of funds in the University of Hawaii'i. We also offer comments on specific sections of this bill.

The impetus for this bill is our Report No. 14-18, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the University of Hawaii'i*. Our review of these funds includes an evaluation of the original intent and purpose of each fund, including the degree to which each fund continues to serve its intended purpose. We also evaluate whether each fund meets statutory criteria for its respective fund type (i.e., special, revolving, or trust). This bill would implement many of our report recommendations.

Funds that would be reclassified by SB 160, SD 2

The funds we listed in Report No. 14-18 that serve the purpose for which they were originally created, but function as and meet the criteria for revolving funds, would be repealed as a special fund and reclassified to a revolving fund.

1. **Hawaii'i Education Loan Program Special Fund** (Part II) established under §304A-2161, HRS. We recommended reclassifying; UH deferred to the Legislature.

2. **Community Colleges Special Fund** (Part III) established under §304A-2162, HRS.

We recommended reclassifying; UH deferred to the Legislature.

Funds that *do not meet* criteria would be repealed by SB 160, SD 2

We support repealing UH funds that *do not meet* criteria:

1. **University of Hawai‘i Alumni Special Fund** (Section 12) established under §304A-2175, HRS. We recommended repeal; UH deferred to the Legislature.
2. **Animal Research Farm, Waiale‘e, O‘ahu Special Fund** (Section 14) established under §304A-2177. We recommended repeal; UH deferred to the Legislature;
3. **Career and Technical Training Projects Revolving Fund** (Section 16) established under §304A-2268. We recommended repeal; UH deferred to the Legislature;
4. **Senator Hiram L. Fong Scholarship Program Endowment Trust** (Section 18) established under §304A-2353. We recommended repeal; UH deferred to the Legislature; and
5. **Senator Oren E. Long Scholarship Program Endowment Trust** (Section 20) established under §304A-2354. We recommended repeal; UH deferred to the Legislature.

Sections 2 and 3 of SB 160, SD 2, statutorily establishes the University of Hawai‘i quasi-endowment trust fund. However, unlike special and revolving funds established under Sections 37-52.3 and 57-52.4, HRS, respectively, trust funds and accounts are not required to be established by an act of the Legislature. Departments, including the UH, may administratively create funds and accounts under Section 37-52.5, HRS, provided a report to the Legislature is made within 30 working days of the fund’s creation and includes a justification for the fund or account and identifies its source of revenue.

In addition, Section 37-62, HRS, defines a trust fund as one in which “designated persons or classes of persons have a vested beneficial interest ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.” Sections 2 and 3 of this bill may not meet the definition of a trust fund when the primary sources of income to be deposited into the fund from the existing revolving fund are derived from interest earned from the UH-Mānoa Stadium Stock Fund and community colleges’ lease rents. Since the UH plans to use the fund as a holding account as explained in its testimony in support of SB 160, SD 1, before the Senate Committee on Ways and Means, it would be appropriate for the UH to administratively create a University of Hawai‘i Quasi-endowment Trust *Account*. The Department of Accounting and General Services defines a trust account as a separate holding or clearing account for state agencies. Typically, trust accounts serve as accounting devices to credit or charge agencies or projects for payroll or other costs.

Thank you for the opportunity to testify in partial support of SB 160, SD 2, and to provide comments. I am available to answer any questions you may have.

TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Reclassification of special funds

BILL NUMBER: SB 160, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Implements the state auditor's recommendation to reclassify various funds of the University of Hawaii.

BRIEF SUMMARY: Establishes a University of Hawaii quasi-endowment trust fund into which shall be deposited income derived from the University's endowment fund.

Reclassifies the following special funds as revolving funds:

- Housing educator loan program special fund
- Community colleges special fund

Repeals: University of Hawaii alumni special fund
Animal research farm, Waialeale, Oahu special fund
Career and technical training projects revolving fund; University of Hawaii at Hilo
The Senator Hiram L. Fong scholarship program; endowment trust
The Senator Oren E. Long scholarship program; endowment trust

All balances in the funds reclassified as revolving funds shall remain in their respective funds.

On July 1, 2015, all unencumbered balances remaining in the repealed funds shall lapse into the general fund.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure implements the state auditor's recommendation in the auditor's report No. 14-18 that reviewed the special funds, revolving funds, trust funds, and trust accounts of the University of Hawaii. The special funds reclassified by this measure were found to be essential to the respective program areas while the funds repealed were found to be no longer necessary or not meeting the criteria for continuance under law.

Digested 3/18/15